

effect until 2008; this slow phase-in markedly reduces the bill's cost in the first 10 years. The Joint Tax Committee estimate shows that when all of the plan's provisions are fully in effect in 2008 through 2010, the bill would cost \$40 billion a year.

Once in full effect, the proposal to expand the 15 percent and 28 percent tax bracket itself would cost more than \$20 billion a year. This provision would exclusively benefit taxpayers in brackets higher than the current 15 percent bracket; no other taxpayers would be touched by it. Since only the top quarter of taxpayers are in brackets higher than the 15 percent bracket, only those in the top quarter of the income distribution would benefit from the provision.

The bill's tax reductions are not focused on married families that face marriage penalties. Nearly as many families receive marriage bonuses today as receive marriage penalties, and the bill would reduce their taxes as well. The proposal would confer tens of billions of dollars of "marriage penalty tax relief" on millions of married families that already receive marriage bonuses. In fact, only about 40 percent of the \$248 billion in tax cut benefits the bill would provide over the next ten years would go for reductions in marriage penalties. A similar proportion of the tax cuts, about 38 percent would reduce the taxes of families already receiving marriage bonuses. The remainder of the benefits, including portions of the AMT change that would go to taxpayers other than married couples, would neither reduce penalties nor increase bonuses.

SENATE DEMOCRATIC AND ADMINISTRATION PROPOSALS

A marriage penalty relief plan that is more targeted on middle-income families and modestly less expensive than the Roth proposal is expected to be offered by Democrats on the Senate floor. This Democratic alternative is identical to an amendment offered by the Finance Committee Democrats during the June 28th mark up of the Roth proposal. This plan would allow married taxpayers with incomes below \$150,000 to choose whether to file jointly as a couple or to file a combined return with each spouse taxed as a single filer. The long-term cost of the Democratic alternative appears to be about four-fifths of the long-term cost of the Roth plan. (This provision ignores the cost of the AMT provision of the Roth plan.)

The marriage penalty relief proposals contained in the Administration fiscal year 2001 budget are significantly less costly than either the Roth proposal or the Senate Democratic alternative. These proposals, which are targeted on low- and middle-income married filers who face marriage tax penalties, would provide substantial marriage penalty relief at about one-fourth the cost of the Roth plan. (This comparison, as well, excludes the cost of the AMT provisions of the Roth plan.) The marriage penalty proposals in the Administration budget would cost a little more than \$50 billion over 10 years.

BUDGETARY REALITIES

The budget surplus projections that the Administration issued on June 26 show a projected non-Social Security surplus under current law of nearly \$1.9 trillion over 10 years. While this may make it seem as though the proposed marriage penalty relief could be afforded easily, caution needs to be exercised. The surpluses actually available for tax cuts and programs expansions are considerably smaller than is commonly understood. Furthermore, there is a wide range of priorities competing for the surplus dollars that are available.

The projected surpluses include about \$400 billion in Medicare Hospital Insurance (HI) trust fund surpluses that the President, the

House of Representatives, and the Senate have agreed should not be used to fund tax cuts or program increase. Excluding these Medicare HI surpluses, the surpluses available to fund tax cuts or program increases amount to less than \$1.5 trillion.

That baseline projection, however, does not reflect the full costs of maintaining current policies. For instance, the Administration's baseline projections of the cost of discretionary, or annually appropriated, programs assume that funding for these programs will be maintained at current levels, adjusted only for inflation. The projections do not include an adjustment for growth in the U.S. population, so the projections assume that funding in discretionary programs will fall in purchasing power on a per person basis. Maintaining current service levels for discretionary programs would entail that such spending be maintaining in purchasing power on a per capita basis.

Certain legislation that is needed simply to maintain current tax and entitlement policies and that is virtually certain to be enacted also is not reflected in the surplus projections, including legislation to extend an array of expiring tax credits that Congress always extends, legislation to prevent the Alternative Minimum Tax from hitting millions of middle-class taxpayers and raising their taxes, as will occur if the tax laws are not modified, and legislation to provide farm price support payments to farmers beyond those the Freedom to Farm Act provides, as Congress has done each of the past two years. Assuming that legislation in these areas will be enacted (as it is virtually certain to be) and that the purchasing power of discretionary programs will be maintained at current levels on a per person basis reduces the available non-Social Security, non-Medicare HI surpluses by approximately \$600 billion, to less than \$900 billion over 10 years.

At least half of this \$900 billion is likely to be needed to facilitate reform of Social Security and Medicare that will ensure the long-term solvency of those programs. Since neither party is willing to close the long-term financing gaps in these programs entirely or largely through slicing benefits costs or increasing payroll taxes, a large infusion of revenue from the non-Social Security part of the budget will be necessary. Indeed, nearly all of the major Social Security proposals offered by lawmakers of either party entail the transfer of substantial sums from the non-Social Security budget to the retirement system. Taking this reality into account leaves about \$400 billion over 10 years to pay for tax cuts or other program initiatives.

Competing for those funds are other tax cuts, various domestic priorities such as providing a Medicare prescription drug benefit, reducing the number of uninsured Americans, increasing investments in education and research, and reducing child poverty, as well as proposals to raise defense spending. The Senate Finance Committee marriage penalty proposals would eat up more than three-fifths of this \$400 billion in a single bill.

ROTH PLAN FAVORS HIGHER-INCOME TAXPAYERS

The most expensive provision in the Roth bill would change the tax brackets for married couples. It would raise for couples both the income level at which the 15 percent bracket ends and the 28 percent bracket begins, and the income level at which the 28 percent bracket ends and the 31 percent bracket begins. Joint Tax Committee estimates, show this provision would cost nearly \$123 billion over the next 10 years even though it does not fully phase in until fiscal year 2008. In the years between 2008 and 2010 it would account for 54 percent of this plan.

Because this provision would raise the income level at which the 15 percent and 28 percent brackets end for married couples, it would benefit only those couples whose incomes exceed the level at which the 15 percent bracket now ends. A couple with two children would need to have income surpassing \$62,400 (in 2000 dollars) to benefit. Only one of every four taxpayers, and one of every three married taxpayers, have incomes that place the taxpayers above the point at which the 15 percent bracket currently ends.

Thus, when the provisions of the Roth plan are phased in fully, more than half of its tax cuts would come from a provision that exclusively benefits taxpayers in the top quarter of the income distribution and married couples in the top third of the distribution.

A second provision in the Roth bill would increase the standard deduction for married couples. This approach focuses its tax benefits on middle-income families. Most higher-income families have sufficient expenses to itemize their deduction and do not use the standard deduction. Most low-income working families have no income tax liability and would not benefit. If this provision were effective in 2000, the standard deduction would increase by \$1,450, which would generate a \$218 tax cut for most couples in the 15 percent tax bracket. This provision would account for a little more than one quarter (27 percent) of the plan's costs over the first 10 years and one-fifth of the plan's annual costs when all provisions of the plan are phased in fully.

The third provision of the Roth plan is an increase in the amount of the earned income tax credit that certain married couples with low earnings can receive. This is the one provision of help to low-income married families. When all of the provisions of the plan are phased in fully, the EITC provision would represent four percent of the plan's annual costs. (This provision would account for six percent of the plan's costs over the first 10 years.)

Low-income married families can face marriage penalties that arise from the structure of the Earned Income Tax Credit. EITC marriage penalties occur when two people with earnings marry and their combined higher income makes them ineligible for the EITC or places them at a point in the EITC "phase-out range" where they receive a smaller EITC than one or both of them would get if they were still single.

The Roth proposal would reduce EITC marriage penalties by increasing by \$2,500 the income level at which the EITC for married families begins to phase down, as well as the income level at which married families cease to qualify for any EITC benefits. For a husband and wife that each work full time at the minimum wage, the Roth proposal would alleviate about 44 percent of their marriage tax penalty.

The plan also contains a fourth provision that is not directly targeted at relieving marriage penalties. This measure would address some of the problems that will result in significant numbers of middle-income families becoming subject to the Alternative Minimum Tax in future years—a situation never intended when the AMT was enacted—by permanently allowing both non-refundable and refundable personal tax credits to offset AMT tax liability. This provision would account for one-quarter of the legislation's total cost when all of the bill's provisions are fully implemented.

ROTH PLAN TARGETS BENEFITS ON HIGHER-INCOME TAXPAYERS

The Joint Committee on Taxation has estimated the distribution impact of this proposal on taxpayers in the years 2001 through 2005. For 2005, the JCT found that more than